

City of New York Health and Human Services

Cost Policies and Procedures Manual

As of March 5, 2019

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I. Definitions and Acronyms

A. Definitions

| Definitions |
|--|
| Account Code: A numeric code that classifies Costs pursuant to a Provider's chart of accounts. Account Codes may also be referred to as object codes or Cost codes. |
| Account Code Title: A description corresponding to each Account Code. |
| Activity: Action or function of a Provider. |
| Agency: The City Agency that holds the Contract with the Provider. |
| Allocation: The process of assigning a Cost, or a group of Costs, to one or more Cost Objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning Cost(s) directly to a Final Cost Objective or through one or more Intermediate Cost Objectives. |
| Allowable Cost: An Allowable Cost directly or indirectly benefits a particular Contract and contributes to the Provider's provision of services under the Contract. Allowable Cost is further described in Section III.B (Allowable Cost). |
| Base: Accumulated Direct Costs in which Indirect Costs will be allocated. |
| Base Period: The period when Costs are accumulated for Allocation to services performed. The Base Period normally coincides with the Provider's fiscal year. |
| Capital Expenditure and Equipment: A Cost to acquire capital assets or a Cost to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increases their value or useful life. Equipment is tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition Cost that equals or exceeds the lesser of the capitalization level established by the Provider for financial statement purposes, or \$5,000. Capital Expenditures and Equipment are further described in Section IV.E (Capital Expenditures and Equipment). |
| City: The City of New York. |
| Code of Federal Regulations (CFR): The codification of general and permanent rules published by the Office of the Federal Register. |

Definitions

Contract: A legally binding health and human services agreement.

Cost: The cash (or cash equivalent) given up or outlaid for an asset.

Cost Objective: A Program, Project, department, Activity, or Contract for which Cost data is desired and for which provision is made to accumulate and measure the Cost of processes, products, jobs, capital Projects, etc. A Cost Objective may be a major function of the Provider, a particular service or Project, a Contract, or an Indirect Cost Activity. Cost Objective is further described in Section III.A (Introduction).

Cost Pool: Accounts of similar specific allocation statistics that are grouped together to combine Indirect Costs.

Department: A work unit or division within a Provider, such as an Information Technology Department.

Direct Cost: A Cost that can be identified with a particular Final Cost Objective, such as a Contract. Direct Cost is further described in Section III.D (Direct Costs).

Direct Cost Base: Accumulated Direct Costs used to distribute Indirect Costs. The Direct Cost Base selected should result in a reasonable relation to the benefits received from the Costs.

Disallowed Cost: A charge to a Contract that the City, or if applicable, a grantor, determines to be an Unallowable Cost, in accordance with the City of New York Health and Human Services Cost Policies and Procedures Manual, the Law, the terms and conditions of a grant award, or the terms and conditions of a Contract. Disallowed Cost is further described in Section III.C (Unallowable Costs).

Distorting Item: Cost that disproportionately impacts the Direct Cost Base relative to the other Costs in the Indirect Cost Rate, such as extraordinary rent.

Final Cost Objective: A Cost Objective that has allocated to it both Direct Costs and Indirect Costs. The Final Cost Objective is one of the final accumulation points in the Provider's Standardized Accounting Software. Final Cost Objective is further described in Section III.A (Introduction).

Generally Accepted Accounting Principles (GAAP): The accounting standard adopted by the U.S. Securities and Exchange Commission for compiling financial statements.

Definitions

Incentive Payment: Nonmonetary items (such as gift cards and MetroCards) allowed only for the benefit of participants (but not employees) of the Program under the Contract.

Indirect Cost: A Cost for a common or joint purpose that cannot be readily identified with a particular Final Cost Objective. Although an Indirect Cost cannot be readily identified with a Contract, it provides a direct benefit to the Contract. Indirect Cost is further described in Section III.E (Indirect Costs).

Indirect Cost Rate (ICR): The proportion of Indirect Costs an individual Program should bear. The rate is the ratio (expressed as a percentage) of the Indirect Costs to a Direct Cost Base.

Indirect Cost Rate Proposal: The documentation prepared by a Provider to substantiate its request for the establishment of an Indirect Cost Rate.

Intermediate Cost Objective: A Cost Objective that is used to accumulate Indirect Costs that are subsequently allocated to one or more Indirect Cost pools or Final Cost Objectives. Intermediate Cost Objective is further described in Section III.A (Introduction).

Law: The New York City Charter; the New York City Administrative Code; a local rule of the City; the Constitutions of the United States and State of New York; a statute of the United States or State of New York; and any ordinance, rule, or regulation having the force of law and adopted pursuant thereto, as amended, and common law.

Local Travel: All travel that does not fall under the definition of Long Distance Travel.

Long Distance Travel: Travel that is to a destination, other than an individual's Primary Workstation, that is not within the boundaries of the City's five boroughs and the distance the individual travels is more than 75 miles from Columbus Circle, Manhattan, and more than 75 miles from the individual's residence.

Primary Workstation: The office or location where an individual has been officially assigned to work and from which work is conducted on a permanent basis. If an individual has multiple Primary Workstations, all distances are measured from the Primary Workstation closest to the travel destination.

Program: One or multiple Projects administered by a Provider designed to provide services directed at a target audience or customer.

Project: An individual or collaborative initiative that is carefully planned and designed to achieve a particular aim.

Definitions

Provider: The entity that is party to a Contract with an Agency. If the Contract is federally funded, the Provider may be a subrecipient or a procurement contractor.

Simplified Allocation Method: An allocation methodology where a Provider's major functions benefit from its Indirect Costs to approximately the same degree. The Indirect Cost allocation may be accomplished by (i) separating all the Provider's Costs for the Base Period as either direct or indirect and (ii) dividing the total allowable Indirect Costs (net of applicable credits) by an equitable distribution base. The result of this process is an Indirect Cost Rate that is used to distribute Indirect Costs to individual Contracts. The rate should be expressed as the percentage that the total amount of allowable Indirect Costs bears to the base selected. Simplified Allocation Method is further described in Section V (Developing a Simplified Allocation Method Rate).

Single Audit Act: Federal act that promotes sound financial management, including effective internal controls, with respect to federal awards administered by nonfederal entities and establishes uniform requirements for audits of federal awards administered by nonfederal entities.

Standardized Accounting Software: A Provider's accounting system that collects and maintains Costs.

Unallowable Cost: A Cost that cannot be charged to a particular Contract. An Unallowable Cost is a Cost that neither directly nor indirectly benefits a particular Contract. Unallowable Cost is further described in Section III.C (Unallowable Costs).

Note: Most definitions are adapted from 2 CFR Part 200.

B. Acronyms

| Acronyms |
|---|
| CFR: Code of Federal Regulations |
| CPA: Certified Public Accountant |
| GAAP: Generally Accepted Accounting Principles |
| HHS: Health and Human Services |
| ICR: Indirect Cost Rate |
| MOCS: Mayor’s Office of Contract Services |
| NICRA: Negotiated Indirect Cost Rate Agreement |
| OMB: New York City Office of Management and Budget |
| SAM: Simplified Allocation Method |

Currently Under Revision

II. Introduction

A. *Applicability*

The City of New York Health and Human Services Cost Policies and Procedures Manual (the Cost Manual) provides uniform ICR guidance for City agencies with Contracts.

Subrecipients of federal awards are responsible for following guidelines outlined in their award, 2 CFR 200, and/or any specific federal agency codified version of Uniform Guidance that applies to a subaward.

Contractors are responsible for following guidelines issued by their contracting entity, which includes this Cost Manual and any subsequent editions of the Cost Manual.

B. *Purpose*

The purpose of this Cost Manual is to offer budgeting flexibility for Providers, to streamline administrative processes for Agencies and Providers by standardizing cost definitions and ICR policies and to promote greater accessibility to City contracting by offering clear and comprehensive cost guidance.

This Cost Manual contains City-specific policies and procedures and should be used as the primary source for calculating ICRs. The treatment of Costs outlined in the Cost Manual applies to both the ICR calculation and Direct Cost treatment.

The City developed this Cost Manual in collaboration with Agencies and the Nonprofit Resiliency Committee. The Cost Manual is intended to supplement existing City Law as well as the terms and conditions of a Contract. Any conflict between this Cost Manual and relevant documents shall be resolved in the following order of precedence:

- 1) The Contract
- 2) The Cost Manual
- 3) City Fiscal Manual.

For questions regarding the Cost Manual, please refer to Section VI.C (Contact Information) for the contact information.

C. *City Policies*

The following language outlines the City's policy for claiming ICRs, applying ICRs, and audits thereof.

City De Minimis Indirect Rate

Eligible providers may submit a budget that includes indirect expenses of up to 10% of the Direct Cost Base, as defined in Section V.F (Step #5 – Calculate the Indirect Cost Rate), on all Agency Contracts without providing documentation to the City during the budget approval process. This is the "City De Minimis Indirect Rate."

Contract budgets are not eligible for the City De Minimis Indirect Rate in the following situations:

- 1) When supported with federal funds, where the Provider is classified as a subrecipient, and that Provider has previously negotiated a federally approved indirect rate; subrecipients are eligible for their negotiated rate, or 10%, pursuant to federal guidelines
- 2) When supported with federal funds where Program statutes or regulations restrict, or require additional documentation to substantiate, indirect rates, or the reimbursement thereof
- 3) When supported with State of New York funds where requirements from State of New York oversight agencies or Program grants restrict, or require additional documentation to substantiate, indirect rates, or the reimbursement thereof.

Claiming More Than City De Minimis Indirect Rate

For contract budgets that are eligible, providers may request a greater indirect rate than the City De Minimis Indirect Rate. Providers will be required to document requested rates, pursuant to the Cost Manual, prior to the Agency's approval of their indirect rate.

Accepted documents include (each referred to as Verification Documentation):

- 1) NICRA, if the provider has a federally approved rate; NICRA must be valid at the time the provider submits invoices against that indirect rate
- 2) Letter from a CPA verifying that the Provider calculated the ICR according to the Cost Manual and based the ICR on the most recent available schedule of functional expenses. The letter is valid for three years from the date of issuance and must be valid at the time the Provider submits invoices against that indirect rate. The City has provided the letter template for the CPA to use in Section II.D (CPA Verification Letter Template).

For contract budgets that agencies manage through HHS Accelerator Financials, providers shall upload and attach Verification Documentation to the proposed fiscal year budget.

The contracting Agency will confirm that the Verification Documentation has been uploaded.

The contracting Agency may decline the ICR for the following scenarios:

- 1) The provider did not upload and attach Verification Documentation;
- 2) The contract budget is supported by federal or State of New York funds that restrict or cap the ICR; or
- 3) The ICR will decrease the Program service level.

Consistent with current practice and policy, Provider line item budget requests are subject to the contracting agency's approval. This includes a review of the proposed indirect rate to ensure that the use of a higher indirect rate will not compromise the services delivered through the Contract and will not come at an additional expense to the City.

Application of Rate

For both Providers claiming the de minimis and Providers claiming more than the de minimis:

- 1) For purposes of determining the budgeted Indirect Costs in a Contract, apply the ICR to the Total Direct Cost Base as calculated using budgeted Costs of the Contract.
- 2) For purposes of determining the actual Indirect Costs that may be billed for reimbursement, apply the ICR to the actual expenditures incurred in Total Direct Cost Base.

Audits

Audit steps are derived from existing City policy and do not represent a change in audit protocols or objectives.

Pursuant to the Standard Audit Process Guide (see link here: https://www1.nyc.gov/assets/nonprofits/downloads/pdf/Standard_Audit_Process_Guide.pdf), Agency Audit Guides and/or Fiscal Manuals, and Comptroller Directive 2, all Contracts are subject to Agency audit. This includes a review of Provider Direct Costs, Indirect Costs, and the indirect rate calculation (if applicable).

Audits will cover Providers calculating an indirect rate as well as Providers that are using a de minimis rate. This includes Providers who have a NICRA and Providers who had a CPA firm develop their rate.

For Providers calculating an indirect rate, audits are not limited to, but may cover any or all of, the following:

- 1) The Provider's Indirect Costs, indirect rate, as well as the Provider's compliance with the Cost Manual
- 2) Processes, internal controls, and relevant Verification Documentation related to the Provider's indirect rate calculation
- 3) Processes, internal controls, and relevant Verification Documentation related to the allowability of Indirect Costs and the appropriate categorization of Costs as either Direct Costs or Indirect Costs.

For providers using the de minimis rate, audits are not limited to, but may cover any or all of, the following:

- 1) Verification that the rate used is consistent with the rate specified in the Contract
- 2) Verification that the rate is applied to the correct Direct Cost Base
- 3) Verification that the reimbursed Indirect Costs are allowable, reasonable, and not duplicative (i.e., Costs that were charged as direct cannot be reimbursed through the de minimis rate).

Pursuant to the Standard Audit Process Guide, audits are permitted to be conducted on the current year, as well as the previous three years: Direct Costs, Indirect Costs, and ICRs (if applicable).

Selection of Providers for audit will be at the discretion of the Agency.

Applicability of the Cost Manual

The Cost Manual is applicable to Contracts. The Cost Manual is intended to provide flexibility, standardization, and consistency to Providers; as such, the City is offering Providers the option to apply the Cost Manual for FY20 and future budgets on Contracts that have start dates before July 1, 2019. If Providers wish to apply the Cost Manual to these Contracts, then Providers will need to execute an amendment to their Contract that applies the Cost Manual to the Contract and indicates the new order of precedence provided below. City Agencies will be sending amendments to Providers.

The Cost Manual will apply to all Contracts commencing July 1, 2019 or afterwards. The standard Contract will include a rider that incorporates the Cost Manual into the Contract and indicates the new order of precedence provided below. Agencies may not insert contradictory language into the Contract, unless it is pursuant to federal or State of New York guidance that restricts reimbursement for such Costs.

In the event that the Cost Manual conflicts with any of the following documents, the conflict shall be resolved in the following order of precedence:

- 1) The Contract
- 2) The Cost Manual
- 3) City Fiscal Manual.

Based on the order of precedence, in instances where an Agency's Fiscal Manual language conflicts with the Cost Manual, the Cost Manual takes precedence.

D. Certified Public Accountant Verification Letter Template

The undersigned hereby verifies that [Provider] calculated the Indirect Cost Rate according to the New York City Health and Human Services Cost Policies and Procedures Manual and based the Indirect Cost Rate on the most recent available schedule of functional expenses.

Indirect Rate:

Allowable Indirect Costs:

Direct Cost Base:

[Provider]

[Signature]

[Name]

[Title]

[Date]

[Certified Public Accountant]

[Signature]

[Name]

[Title]

[Date]

III. Defining Costs

A. *Introduction*

Cost Categories

There are four categories of Costs:

- 1) Allowable Costs
- 2) Unallowable Costs
- 3) Direct Costs
- 4) Indirect Costs.

The subsections of this section define and list the criteria of each Cost category, state whether Costs classified into a particular Cost category are eligible to be charged to a Contract, and provide examples of Costs that fit within each Cost category. Most Costs will be categorized into more than one category.

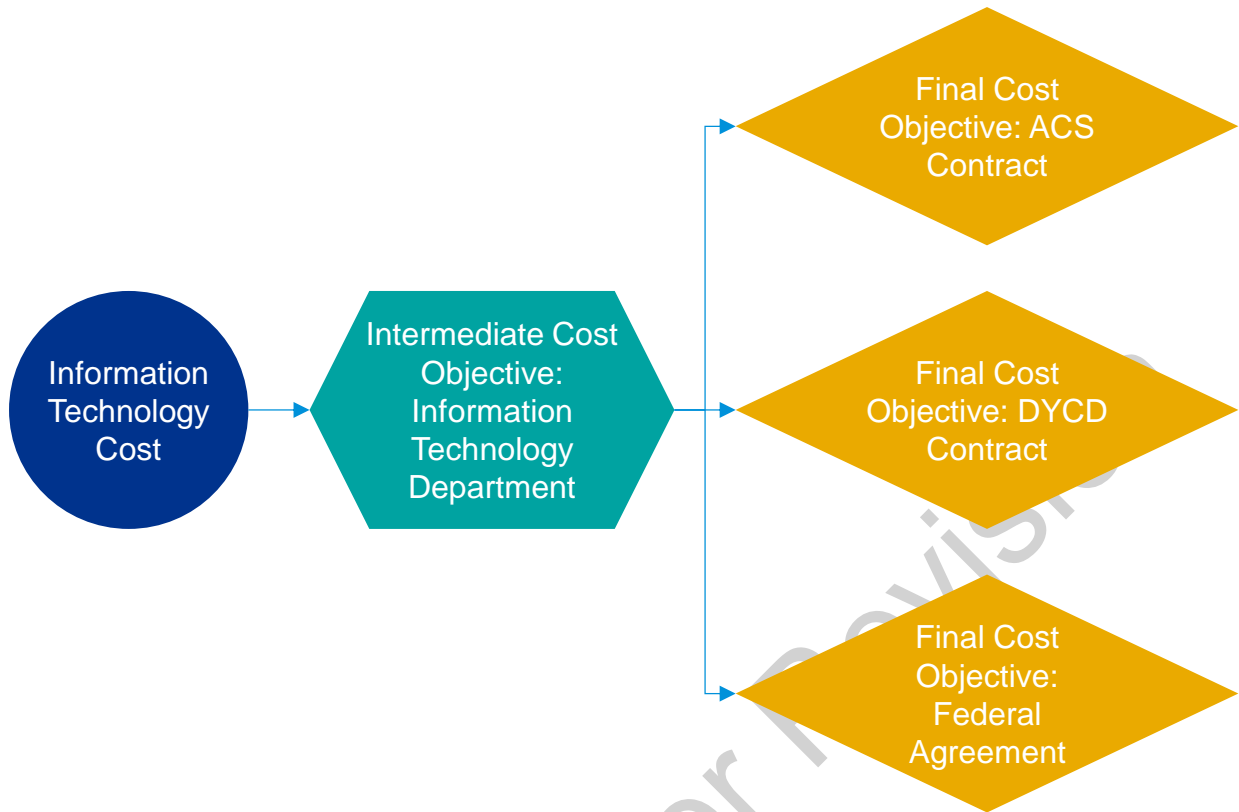
Cost Objectives

The Cost Manual discusses Indirect Costs and Direct Costs in relation to two Cost Objectives—Intermediate Cost Objective and Final Cost Objective.

An Intermediate Cost Objective is a Cost Objective that is used to accumulate Indirect Costs that are subsequently allocated to one or more Indirect Cost pools or Final Cost Objectives. For example, a Provider may track Costs by Account Code Titles (such as rent, utilities, or professional services) or by Department (such as information technology, finance, or risk management). These are all examples of Intermediate Cost Objectives.

A Final Cost Objective means a Cost Objective that has allocated to it both direct and Indirect Costs and, in the Provider's Standardized Accounting Software, is one of the final accumulation points. For example, a Provider may ultimately allocate Costs to a Contract or an internal Project.

A Provider should track Costs initially through Intermediate Cost Objectives, such as accounts or departments, and then allocate these Costs to Final Cost Objectives such as a Contract. The following illustration depicts the relationship between Intermediate Cost Objective and Final Cost Objective.



B. Allowable Cost

Definition of Allowable Cost

Allowable Costs directly or indirectly benefit a particular Contract and contribute to the Provider's provision of services under the Contract.

Determination of Allowable Cost

To constitute an Allowable Cost, a Cost must meet the following criteria:

- 1) Be necessary and reasonable for the performance of the Contract and be attributed to the performance of such Contract
- 2) Conform to any limitations or exclusions set forth in the Contract, the Cost Manual, or Agency fiscal manuals as to types or amounts of Cost items
- 3) Be consistent with policies and procedures that apply uniformly to both City-financed activities and other activities of the Provider
- 4) Be accorded consistent treatment under the particular Contract. A Cost may not be assigned to a Contract as a Direct Cost if any other Cost incurred for the same or similar purposes has been allocated to the Contract as an Indirect Cost. See the following examples for further clarification:
 - a. If the Cost of an Information Technology Analyst is included in the Indirect Cost pool/charged to a Contract for the full three-year term of the Contract and, in the second year of the term, an additional Information Technology Analyst is added who functions in the same capacity, then the Cost of the additional Information Technology Analyst is not allowable as a Direct Cost
 - b. If the Costs of caseworker salaries are directly charged to a Contract, their salary Costs cannot be included in the Indirect Cost Pool when calculating an ICR or charging Indirect Costs to a Contract (*Note: This does not refer to scenarios where a single individual functions in different capacities or roles; this scenario is discussed in Section V.D [Step #3 – Split Mixed Account Codes]*)
- 5) Be determined in accordance with GAAP
- 6) Not be included as a Cost or used to meet Cost sharing or matching requirements of any other Contract in either the current or a prior period of performance (i.e., the period of time in which the Provider is expected to complete the Contract activities and to incur and expend approved funds)
- 7) Be adequately documented
- 8) Be authorized under Laws applicable to the grant, the grant agreement, and any other requirements of the grantor
- 9) Not prohibited by Law.

Cost Reasonableness

As noted above, for a Cost to be allowable, it must be reasonable for the performance of the Contract. A Cost is reasonable if, in its nature and amount, it does not exceed the amount that would be incurred by a prudent Provider under

the circumstances prevailing at the time the decision was made to incur the Cost. In determining reasonableness of a given Cost, consideration must be given to:

- 1) Whether the Cost is of a type generally recognized as ordinary and necessary for the operation of similar providers and the proper and efficient performance of services under the Contract
- 2) The restraints or requirements imposed by factors including sound business practices, arm's-length bargaining, Law, and terms and conditions of the Contract
- 3) Market prices for comparable goods or services for the geographic area; "market price" is defined in the New York City Procurement Policy Board Rules as, "prices commonly paid by the public either through a standard price list or catalogue"
- 4) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the Provider, its employees, and, where applicable, the Provider's students or membership, the public at large, and the Agency
- 5) Whether the Provider significantly deviates from its established practices and policies regarding the incurrence of Costs, which may result in exceeding the budgeted Costs of the Contract.

Contracts vary in their treatment of Allowable Costs and some Agencies may be stricter than others in determining the allowability of Costs. Providers should consult the following sources to understand the Allowable Costs for each Contract:

- 1) Terms and conditions of the Contract, including the Fiscal Manual incorporated by reference into such Contract
- 2) Law
- 3) 2 CFR Part 200, if the Contract is federally funded.

The sources outlined above are not exhaustive. Providers should communicate with their Agency for clarification or feedback on questions related to the allowability of Costs.

It is the responsibility of the Provider to review all sources of information to determine the allowability of Costs.

Treatment of Allowable Cost

Not all Allowable Costs can be charged to a Contract. For example:

- 1) Reimbursement may be capped to a percentage of all Costs by the limitations applicable to a federal or State of New York grant award, such as limitations in the statute authorizing the grant Program. Indirect Costs are more frequently subject to such caps than Direct Costs.
- 2) Some Costs can be charged as Direct Costs, but are unallowable for purposes of developing an ICR.

Currently Under Revision

C. Unallowable Costs

Definition of Unallowable Cost

An Unallowable Cost is a Cost that cannot be charged to a particular Contract. Unallowable Costs are those Costs that neither directly nor indirectly benefit a particular Contract. If the Cost does not meet the criteria of an Allowable Cost, the Cost is an Unallowable Cost.

Determination of Unallowable Cost

Unallowable Costs vary under different Contracts in accordance with Laws applicable to a particular Contract, the terms and conditions of that Contract, and, if that Contract is grant funded, the prohibitions of the grantor.

Treatment of Unallowable Cost

In determining Unallowable Cost, the Cost Manual defines select Unallowable Costs; barring any superseding statutes, the Cost Manual should be followed. Unallowable Costs should not be included in SAM calculation.

D. Direct Costs

Definition of Direct Cost

Direct Costs are Costs that can be identified with a particular Final Cost Objective, such as a Contract.

Determination of Direct Cost

A Cost may be direct with respect to some specific service or function, but indirect with respect to the Contract or other Final Cost Objective. It is essential that each item of Cost incurred for the same purpose be treated consistently in like circumstances either as a Direct Cost or an Indirect Cost to avoid possible double-charging of Contracts.¹

While there is both flexibility and situational factors that impact the classification of Costs, there are common indicators that can assist Providers in classifying Costs as direct. For example, whether the Cost was charged to the Contract rather than the nature of the goods and services involved can help with classifying a Cost.²

The salaries of administrative and clerical staff are often treated as Indirect Costs; however, there are instances where Costs that appear to be indirect, such as administrative and operational support, can be treated as Direct Costs.

Direct charging of these Costs may be appropriate only if all of the following conditions are met:

- 1) Administrative or clerical services are integral to a Project or Activity
- 2) Individuals involved can be specifically identified with the Project or Activity
- 3) Such Costs are explicitly included in the budget or have been approved, in advance, by the awarding agency
- 4) The Costs are not recovered as Indirect Costs.³

Providers may incur Costs that appear to be indirect by their description, but are actually Direct Costs based on their nature and identification with a Contract.

For Providers, the Costs of Provider activities primarily as a service to members, clients, or the general public when significant and necessary to the Provider's mission must be treated as Direct Costs whether or not allowable, and be allocated an equitable share of Indirect Costs. Some examples of these types of activities include:

- 1) Maintenance of membership rolls, subscriptions, publications, and related functions
- 2) Providing services and information to members, legislative or administrative bodies, or the public
- 3) Promotion, lobbying, and other forms of public relations

¹ Adapted from 2 CFR § 200.412

² Adapted from 2 CFR § 200.413

³ Adapted from 2 CFR § 200.413

- 4) Conferences except those held to conduct the general administration of the Provider and those listed in Section IV.H (Conference, Training, and Education Costs) under unallowable Costs
- 5) Maintenance, protection, and investment of special funds not used in operation of the Provider
- 6) Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, and financial aid.⁴

Treatment of Direct Costs

Direct Costs are reimbursable to the extent that they are included in the Contract's budget. The Provider is responsible for Costs in excess of those agreed to in the budget.

Examples of Direct Costs

Examples of Direct Costs are outlined for each Cost in Section IV (Treatment of Commonly Incurred Costs).

⁴ Adapted from 2 CFR § 200.413

E. Indirect Costs

Definition of Indirect Cost

An Indirect Cost is a Cost for a common or joint purpose that cannot be readily identified with a particular Final Cost Objective. Although Indirect Costs cannot be readily identified with a Contract, they provide benefits to the Contract.

Determination of Indirect Cost

A Cost cannot be both direct and indirect as Direct Costs and Indirect Costs are mutually exclusive. Providers have diverse accounting practices and operations that influence whether they define particular Costs as Indirect Costs or Direct Costs.

Providers should be viewing and treating Costs and Cost Pools consistently. For example, if a Provider has two custodian Costs that are similar in function, the Provider cannot charge one custodian Cost as a Direct Cost for one Contract and charge the other custodian Cost as an Indirect Cost to another Contract.

Treatment of Indirect Costs

Indirect Costs are reimbursable to the extent they are permissible under the particular Contract, this Cost Manual, Law, and, if the particular Contract is grant-funded, the requirements of the grantor.

A Cost shall not be categorized as an Indirect Cost if any other Cost for the same purpose is categorized as a Direct Cost under the Contract.

Examples of Indirect Costs

Examples of Indirect Costs are outlined for each Cost in Section IV (Treatment of Commonly Incurred Costs).

F. Defining Cost Process

The Provider must categorize its Costs into the Cost categories defined above in accordance with this Cost Manual, the Contract, Law, and, if the Contract is grant funded, any requirements of the grantor. The following process may help a Provider categorize its Costs:

Step 1 – Determine if the Cost is indirect or direct

Determine if the Cost is indirect or direct by reviewing the following three scenarios and grouping the Cost into one of the three:

- 1) Scenario 1: The Cost benefits multiple Cost Objectives and cannot be assigned to multiple Cost Objectives with a high degree of accuracy
- 2) Scenario 2: The Cost benefits multiple Cost Objectives and can be assigned to multiple Cost Objectives with a high degree of accuracy, such as a timesheet
- 3) Scenario 3: The Cost benefits a single Cost Objective.

Step 2 – Determine if the Cost is allowable

Determine if the Direct Cost or Indirect Cost is allowable by reviewing the terms and conditions of the Contract, the Cost Manual, and other applicable City fiscal manuals. This is not an exhaustive list of documents to review and Providers should consult with their respective Agency to understand all applicable guidelines.

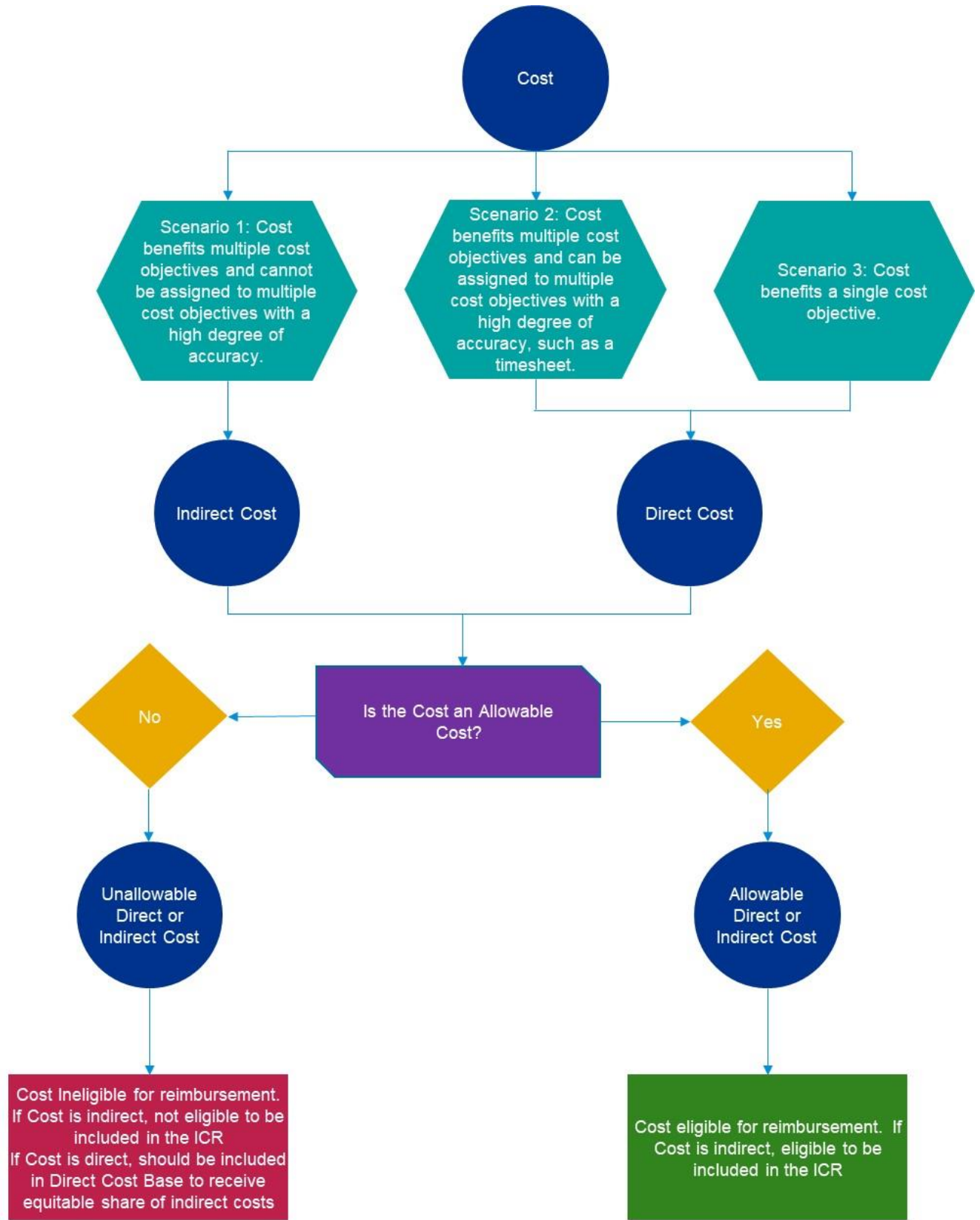
Step 3 – Include the Cost in the ICR, as applicable

Upon completion of Step 1 and Step 2, include the Cost in the ICR, as outlined in the following bullets:

- 1) If the Cost is an allowable Direct Cost, it should be included in the denominator of the ICR
- 2) If the Cost is an allowable Indirect Cost, it should be included in the numerator of the ICR
- 3) If the Cost is an unallowable Indirect Cost, it should not be included in the ICR
- 4) If the Cost is an unallowable Direct Cost, it should be included in the Direct Cost Base to receive its equitable share of Indirect Costs.

Please see the following graphic outlining the steps discussed above.

G. Defining Cost Process Flow Chart



IV. Treatment of Commonly Incurred Costs

A. Introduction

This section, Treatment of Commonly Incurred Costs, explains the treatment of items of Cost that are frequently incurred by Providers.

Each of the explanations about items of Cost on the following pages begins with a definition adapted from 2 CFR Part 200, if such a definition exists (the Cost Manual also identifies items of Cost that are not expressly defined in 2 CFR § 200.420 - 200.475).

Then the explanation states whether the item of Cost is an Allowable or Unallowable Cost (2 CFR Part 200 may address whether an item of Cost is an Allowable Cost or Unallowable Cost even if it does not define the item of Cost).

Finally, the explanation provides examples of scenarios where an item of Allowable Cost could be properly classified as a Direct Cost and scenarios where the same item of Cost could properly be classified as an Indirect Cost. For Allowable Costs that require prior Agency approval, the Provider must submit a written request for approval.

While this Cost Manual adapts applicable federal, State of New York, and City rules, it is a representation of City-specific policies and procedures and should be used as the primary source for calculating ICRs. This section is not intended to be an exhaustive list of Costs that a Provider may incur during the term of a Contract; rather, the section is intended to provide guidelines for common Costs and Costs that tend to be incurred in relatively large-dollar values. Providers should also consult with their respective Agencies if they have any questions regarding the treatment of Costs. Please see Section II.B (Purpose) for a discussion on order of precedence.

The following legend will be used throughout this section to identify Allowable Costs, Unallowable Costs, Direct Costs, and Indirect Costs:

| Classification | |
|----------------|--------------------|
| A | Allowable |
| U | Unallowable |
| D | Direct |
| I | Indirect |

B. Advertising Costs and Public Relations Costs

Advertising Costs are the Costs of advertising media and corollary administrative Costs. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, etc.⁵

Public Relations Costs are the Costs of activities dedicated to maintaining the image of the Provider or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public. Public relations includes community relations.⁶

A Allowable

The only Advertising Costs that are Allowable Costs are those that are solely for:

- 1) The Advertising Costs associated with the procurement of goods and services for the performance of a Contract
- 2) The Advertising Costs associated with disposal of scrap or surplus materials acquired in the performance of a Contract, except when a Provider is reimbursed for disposal Costs at a predetermined amount
- 3) The Advertising Costs associated with Program outreach and other specific purposes necessary to meet the requirements of the Contract.

The only allowable Public Relations Costs are:

- 1) Public Relations Costs specifically required by the Contract
- 2) Costs of communicating with the public and press pertaining to specific activities or accomplishments that result from performance of the Contract (these Costs are considered necessary as part of the outreach effort for the Contract)
- 3) Costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of funding opportunities, financial matters, etc.

U Unallowable

All Advertising and Public Relations Costs are unallowable unless otherwise specified as Allowable Costs in this section.

D Direct Example

An example of a direct, allowable Advertising and Public Relations Cost is a payment to a website to host an advertisement that promotes a Provider's services related to a Contract.

I Indirect Example

⁵ Adapted from 2 CFR § 200.421

⁶ Adapted from 2 CFR § 200.421

N/A – Advertising and Public Relations Costs are not allowable as Indirect Costs.

Currently Under Revision

C. **Audit Services Costs**

Audit Services Costs are Costs for activities offered by public accounting firms and/or CPAs to provide an examination and evaluation of an organization.⁷

A Allowable

Allowable Audit Services Costs are as follows:

- 1) Organization-wide year-end financial statement audits
- 2) The Costs of audits required by the Single Audit Act or the City.

U Unallowable

Any Audit Service Costs not identified above are unallowable.

D Direct Example

An example of a direct, allowable Audit Services Cost would include a Cost incurred as part of a Program-specific audit in lieu of a full single audit, provided that the Provider is receiving funding from one City Program.

I Indirect Example

An example of an indirect, allowable Audit Services Cost is a CPA's fee for conducting an examination of the Provider's financial records, accounts, business transactions, accounting practices, and internal controls and issuing a report to the Provider expressing a professional opinion about the Provider's financial practices.

⁷ 2 CFR § 200.425 does not define "Audit Services"

D. **Bad Debts**

Bad Debts are those funds owed to the Provider that the Provider has determined as uncollectable.

A Allowable⁸

Bad Debts and Costs related to their collection are unallowable.

U Unallowable

Bad Debts and Costs related to their collection are unallowable.

D Direct Example

N/A – Bad Debts are not allowable as Direct Costs.

I Indirect Example

N/A – Bad Debts are not allowable as Indirect Costs.

⁸ 2 CFR § 200.426 does not define “Bad Debts”

E. Capital Expenditures and Equipment

Capital Expenditures are Costs to acquire capital assets or Costs to make additions, improvements, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life.⁹ Equipment is tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition Cost that equals or exceeds the lesser of the capitalization level established by the Provider for financial statement purposes, or \$5,000.¹⁰

General Purpose Equipment is equipment that is not limited to research, medical, scientific, or other technical activities. Examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.¹¹

Special Purpose Equipment is used only for research, medical, scientific, or other technical activities. Examples of Special Purpose Equipment include microscopes, X-ray machines, surgical instruments, and spectrometers.¹²

A Allowable

Allowable Capital Expenditures and Equipment Costs are as follows:

- 1) With prior agency approval, Capital Expenditures for General Purpose Equipment, buildings, and land as Direct Costs
- 2) With prior agency approval, Capital Expenditures for improvements to land, buildings, or Equipment that materially increase their value or useful life
- 3) Capital Expenditures for Special Purpose Equipment as Direct Costs, provided that items with a unit Cost of \$5,000 or more have the prior approval of the agency
- 4) The unamortized portion of any Equipment written off as a result of a change in capitalization levels may be recovered by continuing to claim the otherwise allowable depreciation on the Equipment
- 5) The Cost of Equipment disposal or transfer if the Agency instructs the Provider to dispose of or transfer such Equipment.

U Unallowable

Equipment and Capital Expenditures as Indirect Costs are unallowable.

D Direct Example

⁹ Adapted from 2 CFR § 200.13

¹⁰ Adapted from 2 CFR § 200.33

¹¹ Adapted from 2 CFR § 200.48

¹² Adapted from 2 CFR § 200.89

An example of a direct allowable Capital Expenditure is the Cost of renovations of a building.

❶ Indirect Example

N/A – Capital Expenditures and Equipment Costs are not allowable as Indirect Costs.

Currently Under Revision

F. Compensation Costs – Personal Services

Compensation Costs – Personal Services are all remuneration (including, but not necessarily limited to, wages and salaries), paid currently or accrued, for services of the Provider's employees rendered during the term of the Contract.¹³

A Allowable

A Compensation Cost – Personal Services is allowable only if it meets the following requirements:

- 1) The Cost is reasonable for the services rendered and conforms to the established written policy of the Provider (if the Provider has established written policies) or established standard operating practices (if the Provider does not have established written policies) consistently applied to both City and non-City activities; and
- 2) The employee's appointment was made in accordance with a Provider's written policies (if the Provider has established written policies) and meets the requirements of applicable Laws.

Costs of incentive compensation based on Cost reduction or efficient performance, suggestion awards, or safety awards are allowable to the extent that the compensation is determined to be reasonable and with prior agency approval.

An Agency may authorize a Provider to pay incentive payments to employees based on meeting or exceeding Program performance goals or for meeting Program length-of-service goals if the payment is reasonable and not arbitrary.

U Unallowable

Unallowable Compensation – Personal Services Costs are as follows:

- 1) Costs that are unallowable under other sections of the Cost Manual must not be allowable solely on the basis that they constitute compensation, such as compensation for indirect personnel performing advertising functions
- 2) Costs for workers used to replace existing staff and/or for the primary purpose of saving money by using low-Cost labor, to avoid paying fringe benefits, or to replace other funding.

D Direct Example

An example of a direct, allowable Compensation Cost – Personal Services is the salary of an attorney providing legal services to clients under a Contract.

I Indirect Example

An example of an indirect, allowable Compensation Cost – Personal Services is the salary of an accountant whose work supports the general administration of a Provider.

¹³ Adapted from 2 CFR § 200.430

G. Compensation Costs – Fringe Benefits

Compensation Costs – Fringe Benefits are the Costs for allowances and services provided by a Provider to its employees as compensation in addition to Compensation Costs – Personal Services (e.g., salaries and wages).¹⁴ Fringe benefits include, but are not limited to, the Costs of leave (e.g., vacation, military, and sick leave), health insurance, pensions, and unemployment insurance.

A Allowable

Allowable Compensation Costs – Fringe Benefits are as follows:

- 1) Costs for fringe benefits that are reasonable and are required by Law, Provider-employee agreement, or an established policy of the Provider
- 2) Actual claims paid to or on behalf of employees or former employees for workers' compensation, disability benefits, unemployment compensation, severance pay, and similar employee benefits (e.g., postretirement health benefits) are allowable in the year of payment provided that the Provider follows a consistent costing policy.

U Unallowable

Severance payments are generally not allowable. Severance payments may be allowed by the Agency in extenuating circumstances.

D Direct Example

An example of a direct, allowable Compensation Cost – Fringe Benefits is the Cost of a health insurance plan for a social worker providing services under a Contract.

I Indirect Example

An example of an indirect, allowable Compensation Cost – Fringe Benefits is the Cost of a health insurance plan for an accountant whose work generally supports the administration of the Provider.

¹⁴ Adapted from 2 CFR § 200.431

H. Conference, Training, and Education Costs

Conference Costs are a meeting, retreat, seminar, symposium, workshop, or event whose primary purpose is the dissemination of technical information beyond the Provider and is necessary and reasonable for the Provider's successful performance under the Contract.¹⁵ Conference Costs do not include conferences intended for clients of the Provider.

For Travel Costs related to Conferences Costs, Providers should review Section IV.Y (Travel Costs).

Training and Education Costs are those Costs incurred to maintain and/or improve skills and knowledge of Provider's staff, officers, directors, or volunteers.¹⁶

A Allowable

Allowable Conference, Training, and Education Costs are as follows:

- 1) Rental of facilities, speakers' fees, Costs of meals and refreshments, local transportation, and other items incidental to such conferences, with prior written approval from the Agency
- 2) Costs of the Provider's employees' lodging at hotels designated by the conference host or at hotels that are in close proximity to the conference site. Reimbursement is limited to the lower of the actual Cost of the lodging, which may be no greater than the conference rate of designated conference hotels, or the maximum lodging amount component of the per diem rate allowed for the locality in the federal rate schedules, which can be located at the following website: www.gsa.gov/travel/plan-book/per-diem-rates
- 3) The only allowable Training and Education Costs are Costs related to a Program or Contract. Out-of-service training—training that does not relate to a Program or Contract—Costs are allowable Costs only with prior written approval from the Agency.

U Unallowable

Unallowable Conference, Training, and Education Costs are as follows:

- 1) Conference Costs for more than three individuals for each conference
- 2) Training and Education Costs not identified above.

D Direct Example

An example of a direct, allowable Conference Cost is the Cost of a speaker fee for a keynote speaker partaking in a conference related to a Contract.

I Indirect Example

¹⁵ Adapted from 2 CFR § 200.432

¹⁶ 2 CFR 200.472 does not define "Training and Education Costs"

An example of an indirect, allowable Training and Education Cost is the Cost of training on proper timesheet reporting and submission for all Provider's personnel.

Currently Under Revision

I. Depreciation Costs

Depreciation Costs are the Cost of the reduction of value in a fixed asset attributable to the use of the fixed asset over a specified period and calculated in accordance with applicable guidelines.

Providers should follow the federal depreciation schedule unless otherwise instructed in the Contract.

A Allowable

Allowable Depreciation Costs are as follows:

Costs for the use of the Provider's buildings, Capital Improvements, Equipment, and software Projects capitalized in accordance with GAAP, provided that they are used and needed in the Provider's activities, and properly allocated to the Contract.

Total use allowance and depreciation for an asset may not exceed the total acquisition Cost of the asset. Total acquisition Cost is the appropriate measure and not book value less salvage value.

U Unallowable

Depreciation Costs for fixed assets that have outlived their depreciable lives are unallowable. In addition, Depreciation Costs on fixed assets (such as a building) where the City purchased the fixed asset are unallowable.

Once an asset has been fully depreciated, including any Rental Costs, depreciation is unallowable.

D Direct Example

A Provider that operates a Program pursuant to a Contract with an Agency purchases a desktop computer that is dedicated to conducting intake of clients into the Program. The Provider's Depreciation Cost of the desktop computer is allowable as a Direct Cost.

I Indirect Example

A Provider that operates a Program pursuant to a Contract with an Agency purchases a desktop computer that is used in the Provider's administrative offices to conduct organization-wide procurement activities that benefit both the Contract and the Provider's other activities. The Provider's Depreciation Cost of the desktop computer is allowable as an Indirect Cost. Generally, most Depreciation Costs are chargeable as Indirect Costs instead of Direct Costs.

J. Entertainment Costs

Entertainment Costs are those Costs of amusement, diversion, and/or social activities.¹⁷

A Allowable

Entertainment Costs that have a specific programmatic purpose are allowable with prior approval from the Agency.

U Unallowable

Entertainment Costs that are not specifically related to a Contract are unallowable.

D Direct Example

An example of a direct, allowable Entertainment Cost would include a Cost for shows or sporting events for a youth Program as part of a Contract.

I Indirect Example

N/A – Entertainment Costs are not allowable as Indirect Costs.

¹⁷ 2 CFR § 200.438 does not define “Entertainment Costs”

K. Fines, Penalties, Damages, and Other Settlements

Fines, Penalties, Damages, and Other Settlements are Costs incurred from violations of, alleged violations of, or failure to comply with Law.¹⁸

A Allowable

Fines, Penalties, Damages, and Other Settlements are unallowable.

U Unallowable

Fines, Penalties, Damages, and Other Settlements are unallowable.

D Direct Example

N/A – Fines, Penalties, Damages, and Other Settlements are not allowable as Direct Costs.

I Indirect Example

N/A – Fines, Penalties, Damages, and Other Settlements are not allowable as Indirect Costs.

¹⁸ Adapted from 2 CFR § 200.441

L. **Fund-raising and Investment Management Costs**

Fund-raising Costs are Costs incurred in pursuit of financial support of the Provider, such as charitable contributions or donations.

Investment Management Costs are those Costs incurred in the purchasing and selling of financial assets or securities, including banking, budgeting, and taxes.¹⁹

A Allowable

Fund-raising and Investment Management Costs are allowable as Direct Costs, with prior approval by the Agency.

U Unallowable

Fund-raising and Investment Management Costs are unallowable as Indirect Costs.

D Direct Example

An Agency enters into a Contract with an arts organization Provider to provide classical music concert tickets to children. The Contract budget provides a fraction of the Cost of the tickets and the Provider must fund-raise for the remainder of the Cost to provide the tickets. The Agency agrees to reimburse the arts organization for a portion of the Fund-raising Costs to pay the remainder of the Cost of the concert tickets.

I Indirect Example

N/A – Fund-raising Costs and Investment Management Costs are not allowable as Indirect Costs.

¹⁹ 2 CFR § 200.442 does not define “Fundraising Costs” and “Investment Management Costs”

M. Insurance Costs

Insurance Costs are premiums, deductibles, self-insured retentions, and other Costs of an insurance policy or a self-insurance Program.²⁰

A Allowable

Allowable Insurance Costs are as follows:

- 1) Costs of insurance maintained in accordance with the Contract
- 2) Costs of other insurance in connection with the general conduct of activities.

U Unallowable

Unallowable Costs related to Insurance are as follows:

- 1) The Provider's Costs for actual losses that could have been covered by insurance (through a conventional insurance policy or a self-insurance Program)
- 2) Employee bonding Costs unless reasonable and specifically required under the terms of the Contract or incurred in accordance with sound and consistent business practices.

D Direct Example

An example of a direct, allowable Insurance Cost would include the property insurance Cost for a building.

I Indirect Example

An example of an indirect, allowable Insurance Cost would include the Cost to maintain insurance for the organization, such as the premiums for a commercial general liability insurance.

²⁰ Adapted from 2 CFR § 200.447

N. Interest Costs

Interest Costs are those Costs incurred for the use of loaned or borrowed funds.²¹

A Allowable

Allowable Interest Costs are financing Costs (including interest) to acquire, construct, or replace capital assets.

U Unallowable

Unallowable Interest Costs are as follows:

- 1) Costs incurred for interest on borrowed working capital, temporary use of endowment funds, or the use of the Provider's own funds, however represented
- 2) Interest attributable to a fully depreciated asset
- 3) Interest related to Fines, Penalties, Damages, or Other Settlements.

D Direct Example

An example of a direct, allowable Interest Cost is the interest on a loan for the purchase of a building to be used exclusively for a Program to serve clients under a Contract.

I Indirect Example

An example of an indirect, allowable Interest Cost is the interest on a loan for the purchase of a Provider's administrative offices that are used for the administration of the Contract and for the Provider's other activities.

²¹ 2 CFR § 200.449 does not define "Interest Costs"

O. **Maintenance and Repair Costs**

Maintenance and Repair Costs are those Costs incurred for the necessary upkeep and function of assets.²²

A Allowable

Allowable Maintenance and Repair Costs are as follows:

- 1) Costs incurred for utilities, insurance, security, necessary maintenance, janitorial services, repair, or upkeep of buildings and equipment (including City property unless otherwise provided for) that neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition
- 2) Costs incurred for improvements that add to the permanent value of the buildings and equipment or appreciably prolong their intended life must be treated as capital. These Costs are only allowable to the extent not paid through rental or other agreements.

U Unallowable

Unallowable Maintenance and Repair Costs are as follows:

The Costs of idle facilities are unallowable except to the extent that they are necessary to meet workload requirements that may fluctuate and are allocated appropriately to all benefitting Programs. Costs of idle facilities or idle capacity are Costs such as maintenance, repair, housing, rent, and other related Costs (e.g., insurance, interest, and depreciation). These Costs could include the Costs of idle public safety emergency facilities, telecommunications, or information technology system capacity that is built to withstand major fluctuations in load, e.g., consolidated data centers.

D Direct Example

An example of a direct, allowable Maintenance and Repair Cost is the Cost of janitorial services to maintain a building that serves customers as part of the Contract.

I Indirect Example

An example of indirect, allowable Maintenance and Repair Cost is the Cost of utilities related to a building used by personnel associated with the Provider's general administration, such as its headquarters or administrative office.

²² 2 CFR §200.452 does not define "Maintenance and Repair Costs"

P. Materials and Supplies Costs

Materials and Supplies Costs are all tangible personal property other than those described in the definition of Capital Expenditures and Equipment.²³

A Allowable

Allowable Materials and Supplies Costs are as follows:

- 1) Costs of materials, supplies, and fabricated parts
- 2) Materials and supplies used for the performance of a Contract may be charged as Direct Costs.

U Unallowable

In general, prizes are generally unallowable and are subject to the Agency's discretion. As an exception, the Provider's Costs for inexpensive awards such as trophies, medals, or ribbons may be allowable as Direct Costs.

D Direct Example

An example of a direct, allowable Materials and Supplies Cost is the Cost incurred to purchase a \$1,500 computer to process information and conduct quantitative analysis for a Contract. The computer would be considered a "Materials and Supplies" rather than a "Capital Expenditure or Equipment" because the Cost was less than \$5,000.

I Indirect Example

An example of an indirect, allowable Materials and Supplies Cost is the Cost incurred to purchase office supplies, such as writing utensils or staplers, for a supply room with organization-wide access and use.

²³ Adapted from 2 CFR § 200.453

Q. Membership and Subscription Costs

Membership and Subscription Costs are those Costs incurred by a Provider's staff, officers, directors, or volunteers to belong to a particular group or organization or obtain access to information.²⁴

A Allowable

Allowable Membership and Subscription Costs are as follows:

- 1) Costs of the Provider's staff, officers, directors, or volunteers for membership in business, technical, and professional organizations
- 2) Costs of the Provider's staff, officers, directors, or volunteers for subscriptions to business, professional, and technical periodicals
- 3) Costs of the Provider's staff, officers, directors, or volunteers for membership in any civic or community organization are allowable with prior approval by the Agency.

U Unallowable

Unallowable Membership and Subscription Costs are as follows:

- 1) Costs of the Provider's staff, officers, directors, or volunteers for membership in any country club or social or dining club or organization
- 2) Costs of the Provider's staff, officers, directors, or volunteers for membership in organizations whose primary purpose is lobbying.

D Direct Example

An example of a direct, allowable Membership and Subscription Cost is the Cost incurred for a medical journal subscription for research content related to a Contract for the delivery of medical services.

I Indirect Example

An example of an indirect, allowable Membership and Subscription Cost is the Cost of a subscription of a business publication for an organization's executive leadership.

²⁴ 2 CFR § 200.454 does not define "Membership and Subscription Costs" and "Professional Activity Costs"

R. Participant Support Costs

Participant Support Costs are Direct Costs for items such as stipends or subsistence allowances, travel allowances, registration fees, and Incentive Payments paid to or on behalf of participants (but not employees) in connection with conferences or training Programs.²⁵

Incentive Payments are nonmonetary items (such as gift cards and MetroCards) allowed only for the benefit of participants (but not employees) of the Program under the Contract.

A Allowable

Participant Support Costs and Incentive Payments that are reasonable in value are allowable with the prior approval of the Agency.

U Unallowable

Unallowable Participant Support Costs are Costs that are not necessary to the continued participation in a Program by a participant.

D Direct Example

An example of a direct, allowable Participant Support Cost is the Cost of a \$25 gift card that a Provider gives to clients in a job training Program as an incentive for perfect attendance at 10 consecutive training classes under a Contract.

I Indirect Example

N/A – Participant Support Costs are not allowable as Indirect Costs.

²⁵ Adapted from 2 CFR § 200.456

S. **Professional Service Costs**

Professional Service Costs are those Costs incurred for the activities performed by individuals requiring special training for a specific skill set.²⁶

A Allowable

Allowable Professional Service Costs are as follows:

- 1) Costs of professional services rendered by persons who are members of a particular profession or possess a special skill, and who are not employees of the Provider, subject to paragraphs (2) and (3) when reasonable in relation to the services rendered
- 2) In determining the allowability of Costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:
 - a. The nature and scope of the service rendered in relation to the service required
 - b. The necessity of contracting for the service, considering the Provider's capability in the particular area
 - c. The past pattern of such Costs, particularly in the years prior to execution of Contracts with the City
 - d. The impact of City Agency Contracts on the Provider's business (i.e., what problems have arisen from the performance of work under these Contracts)
 - e. Whether the proportion of City work to the Provider's total business is such as to influence the Provider in favor of incurring the Cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under a Contract
 - f. Whether the service can be performed more Cost effectively by direct employment rather than contracting
 - g. The qualifications of the individual or concern rendering the service and the customary fees charged, especially on non-City-funded activities
 - h. Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions)
- 3) In addition to the factors in paragraph (2) of this section, to be allowable, retainer fees for Professional Services must be supported by evidence of bona fide services available or rendered.

²⁶ 2 CFR § 200.459 does not define "Professional Service Costs"

U Unallowable

Unallowable Professional Service Costs are as follows:

- 1) Costs related to supervision of a general nature such as that provided by the head of a department and their staff assistants not directly involved in operations are generally unallowable; in cases where the Costs are for the temporary supervision of operations during a transition period, the Cost may be allowable with prior agency approval
- 2) Costs incurred due to a Provider's violations of, alleged violations of, or failure to comply with Law.

D Direct Example

An example of a direct, allowable Professional Service Cost is the Cost incurred for hiring a fitness instructor to teach a class as part of a Contract for activities that improve the health of senior clients.

I Indirect Example

An example of an indirect, allowable Professional Service Cost is the Cost incurred for engaging a CPA to audit the Provider.

T. Publication and Printing Costs

Publication Costs are those Costs incurred in the use, preparation, and distribution of written, printed, or electronic materials.

Printing Costs are those Costs incurred in the production of materials from written, printed, or electronic sources.²⁷

A Allowable

Allowable Publication and Printing Costs are as follows:

- 1) Publication and Printing Costs for electronic and print media, including distribution, promotion, and general handling; if these Costs are not identifiable with a particular Cost Objective, they should be allocated as Indirect Costs to all benefitting activities of the Provider
- 2) Page charges for professional journal publications are allowable where:
 - a. The publications report work supported by the Contract; and
 - b. The charges are levied impartially on all items published by the journal, whether or not the work was funded under a Contract.

U Unallowable

Unallowable Publication and Printing Costs are those Costs associated with other unallowable Costs, such as the Publication and Printing Costs associated with lobbying activities.

D Direct Example

An example of a direct, allowable Printing Cost is the Cost of printing client reports and files to review and track the performance and status of clients. An example of a direct, allowable Publication Cost is the Cost of printing a know-your-rights brochure for low-income clients facing mortgage foreclosure proceedings.

I Indirect Example

An example of an indirect, allowable Publication and Printing Cost is the Cost of printing a Provider's annual report or budget.

²⁷ 2 CFR § 200.461 does not define "Publication and Printing Costs"

U. **Recruiting Costs**

Recruiting Costs are those Costs incurred to enroll an individual as a new director, officer, employee, or volunteer of an organization.²⁸

A Allowable

Allowable Recruiting Costs are as follows:

- 1) Provided that to the extent that such Costs are incurred pursuant to the Provider's standard recruitment Program:
 - a. Costs of help wanted advertising or operating Costs of an employment office necessary to secure and maintain an adequate staff
 - b. Costs of operating an aptitude and educational testing Program
 - c. Travel Costs of employees while engaged in recruiting personnel
 - d. Travel Costs of applicants for interviews for prospective employment
 - e. Relocation Costs incurred incident to recruitment of new employees
 - f. Where the Provider uses employment agencies, Costs not in excess of standard commercial rates for such services.

U Unallowable

Unallowable Recruiting Costs are as follows:

Special payments, fringe benefits, and salary allowances incurred to attract professional personnel that do not meet the test of reasonableness or do not conform to established Provider practices.

D Direct Example

An example of a direct, allowable Recruiting Cost is the Cost of a help wanted advertisement in a teacher's union newsletter for teachers for a Provider's summer youth Program operated under a Contract.

I Indirect Example

An example of an indirect, allowable Recruiting Cost is the Cost of a help wanted advertisement in a newspaper for a procurement professional who will procure goods for the Contract and for the Provider's general operations.

²⁸ 2 CFR 200.463 does not define "Recruiting Costs"

V. *Rental Costs of Real Property and Equipment*

Rental Costs of Real Property and Equipment are those Costs incurred to lease property or Equipment.²⁹

A Allowable

Allowable Rental Costs are as follows:

- 1) Rental Costs are allowable to the extent that the rates are reasonable in light of such factors as rental Costs of comparable real or equipment property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased; rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available
- 2) Rental Costs under “sale and leaseback” agreements are allowable only up to the amount that would be allowed had the Provider continued to own the real property or equipment; this amount would include expenses such as depreciation, maintenance, and insurance. Rental Costs under “sale and leaseback” agreements are allowable only if they do not conflict with the language in “Unallowable” #2 of this section
- 3) Rental Costs under leases that are required to be treated as capital leases under GAAP are allowable only up to the amount, as explained in paragraph (2) of this section, that would be allowed had the Provider purchased the property on the date the lease agreement was executed. The provisions of GAAP must be used to determine whether a lease is a capital lease. Interest Costs related to capital leases are allowable to the extent they meet the criteria in 2 CFR § 200.449, Interest.

U Unallowable

Unallowable Rental Costs are as follows:

- 1) Rental Costs of Real Property and Equipment for home (residential) office workspace
- 2) Rental Costs of Real Property and Equipment owned by the Provider; this includes, but is not limited to, affiliates, subsidiaries, branches, or holding companies established by the Provider for the purpose of renting real estate previously owned by the Provider
- 3) Changes in Rental Costs of Real Property and Equipment that result in an increase of Costs without prior written approval from the Agency.

D Direct Example

An example of a direct, allowable Rental Cost is the Cost for renting buildings that serve clients as part of the Contract.

I Indirect Example

²⁹ 2 CFR § 200.465 does not define “Rental Costs of Real Property and Equipment”

An example of an indirect, allowable Rental Cost is the Cost for renting a building used by Provider personnel associated with the general administration of an organization, such as a Provider's headquarters or administrative office.

Currently Under Revision

W. Taxes

Taxes are mandatory financial charges, or some other type of levy, imposed upon a taxpayer by a government organization to fund various public expenditures.³⁰

A Allowable

Allowable Taxes are as follows:

In general, Taxes that the Provider is required to pay and that are paid or accrued in accordance with GAAP, and payments made to local governments in lieu of taxes that are commensurate with the local government services received.

U Unallowable

Unallowable Taxes are as follows:

- 1) Taxes from which exemptions are available to the Provider directly, such as sales tax, or that are available to the Provider based on an exemption afforded to the City government and, in the latter case, when the Agency makes available the necessary exemption certificates upon the Provider's request
- 2) Special assessments on land that represent capital improvements
- 3) Federal income taxes
- 4) Expenses outside of the budget operating period are not allowed, including payment of back tax obligations.

D Direct Example

An example of a direct, allowable Tax would include the payroll tax incurred for employee compensation for employees whose Compensation Costs – Personal Services have been classified as Direct Costs.

I Indirect Example

An example of an indirect, allowable Tax would include the tax included in the rent of an administrative facility as an operating Cost.

³⁰ 2 CFR § 200.470 does not define "Taxes"

X. Transportation Costs

Transportation Costs are Costs incurred for moving or relocating goods.³¹

A Allowable

Allowable Transportation Costs are as follows:

Costs incurred for freight, express, cartage, postage, and other transportation services relating either to goods purchased, in process, or delivered. When such Costs can readily be identified with the items involved, they may be charged directly as Transportation Costs or added to the Cost of such items. Where identification with the materials received cannot readily be made, inbound Transportation Costs may be charged to the appropriate Indirect Cost (Facilities and Administrative) accounts if the Provider follows a consistent, equitable procedure in this respect. Outbound freight, if reimbursable under the terms and conditions of the Contract, should be treated as a Direct Cost.

U Unallowable

Unallowable Transportation Costs are Costs for transportation associated with other Unallowable Costs, such as the Transportation Costs of alcoholic beverages. The Transportation Costs of alcoholic beverages would be considered unallowable as the Cost of alcoholic beverages is an Unallowable Cost.

D Direct Example

An example of a direct, allowable Transportation Cost is the shipping and handling Cost of an X-ray machine purchased to deliver medical services in accordance with a Contract.

I Indirect Example

An example of an indirect, allowable Transportation Cost is the Cost of inbound transportation of paper to support the Provider's general administrative activities.

³¹ 2 CFR § 200.473 does not define "Transportation Costs"

Y. **Travel Costs**

Travel Costs are Costs for transportation, lodging, subsistence, and related items incurred by Provider's staff, officers, directors, or volunteers who are in travel status on official business of the Provider.³²

A Allowable

Allowable Travel Costs are as follows:

- 1) Travel Costs may be charged on an actual Cost basis, on a per diem or mileage basis in lieu of actual Costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed in like circumstances in the Provider's non-City-funded activities and in accordance with the Provider's written travel reimbursement policies or established standard operating practices (if the Provider does not have established written policies); Providers must use the most Cost-efficient mode of transportation when given alternatives
- 2) Travel Costs of Provider staff, officers, directors, or volunteers are allowable with the prior approval of the Agency when they are specifically related to the Contract
- 3) Costs incurred by the Provider's staff, officers, directors, or volunteers for travel, including Costs of lodging, other subsistence, and incidental expenses, must be considered reasonable and otherwise allowable only to the extent such Costs do not exceed charges normally allowed by the Provider in its regular operations
- 4) The Costs of public mass transit for work purposes other than commuting are allowable Transportation Costs in most travel situations
- 5) In certain instances, it may be appropriate for employees to use their personal vehicle for Local Travel or Long Distance Travel. As a general rule, personal vehicles should only be used when they are the least expensive means of transportation or when a Provider-owned vehicle is unavailable, impractical, or inefficient; Providers should make every effort to use mass transit in lieu of personal vehicles
- 6) Overnight lodging within the boundaries of the City is generally not permitted; however, with prior Agency approval, overnight lodging and appropriate meals are allowable under extraordinary circumstances. Rates must conform to per diem rates allowed for the locality in the federal rate schedules.

Extraordinary circumstances include the following:

- a. When it is necessary for an individual to be immediately accessible during emergency situations or when an emergency situation is reasonably anticipated (for example, based on forecasts by the National Weather Service or other appropriate authority); or

³² Adapted from 2 CFR § 200.474

- b. When travel is seriously impacted by, or is reasonably anticipated to be impacted by, natural disasters, weather emergencies, or transit strikes
- 7) As a rule, taxi services are not reimbursable for Provider business; however, the Cost of taxi transportation, whether incurred for Local Travel or Long Distance Travel, may be allowable under certain exceptional circumstances. The following is a list of scenarios when taxi transportation may be appropriate (this is not an exhaustive list; other scenarios may apply):
 - a. When employees must transport valuable, heavy, or bulky items and a Provider vehicle is deemed to be inappropriate or is unavailable
 - b. For transportation to or from an airport or transportation hub or other transit station or connection, when public mass transit, courtesy transportation, or other more economical means is deemed to be inappropriate or is unavailable
 - c. When a group of employees is traveling together and the Cost of a taxi, including tip, for the group is less than the group's aggregated public mass transit fares
- 8) When an employee is temporarily or permanently physically disabled.

U Unallowable

Unallowable Travel Costs are as follows:

- 1) Airfare Costs in excess of the basic, least expensive, unrestricted accommodations class offered by commercial airlines
- 2) Commuting Costs (though Costs of travel between different work locations is allowable)
- 3) Repairs and maintenance of any kind for personal vehicles
- 4) Gasoline, motor oil, and other vehicular fluids for personal vehicles
- 5) Travel Costs for dependents
- 6) In instances where Providers seek to take leave time in conjunction with business travel, the Provider must specify when seeking prior approval from the Agency.

D Direct Example

An example of a direct, allowable Travel Cost is the Cost of a train ticket to attend a training Program in the City required by the Contract.

I Indirect Example

An example of an indirect, allowable Travel Cost is the Cost of an economy class airline ticket for a Provider's executive director to attend a national conference

related to domestic violence if the Contract is directly related to the subject matter discussed at the conference.

Currently Under Revision

V. Developing a Simplified Allocation Method Rate

A. Introduction

The following section presents the procedures and steps to develop a Simplified Allocation Method Indirect Cost Rate. The procedures include tables and calculations based on a fictitious example, which will be referred to as the *Sample SAM ICR* throughout the section. The Sample SAM ICR was developed in the following Microsoft Excel workbook.



SAM ICR.XLSX

The Sample SAM ICR is a simple example meant to guide Providers through the rate calculation process and is not intended to be an exhaustive illustration. The SAM should be used when a Provider has only one major function or when all of a Provider's major functions benefit from its Indirect Costs to approximately the same degree. Providers that do not meet those criteria must use other allocation methods that more equitably allocate Indirect Costs to major functions that benefit from those Costs, such as the multiple allocation base method. The City has outlined approved allocation methods in Section VI.A (Indirect Cost Rate Methodologies).

All data inputs used in the calculation of the SAM ICR need to be substantiated through source documentation. For example, time splits of personnel can be substantiated through timesheets.

Please refer to Section VI.A (Indirect Cost Rate Methodologies) for more information on other allocation methods.

B. Step #1 – Generate and Review the Cost Report

To begin developing a SAM ICR, generate a Cost report. The format and structure of the Cost report will vary by Provider, but should include information similar to the following:

- 1) Account Code
 - a. Account Codes serve as the primary means of identifying a Cost. Throughout the exercise, Account Codes are typically listed first in any analysis or calculation and followed by the Account Code Title.
- 2) Account Code Title
 - a. Account Code Titles are crucial in identifying and classifying Costs as Allowable Costs, Unallowable Costs, Direct Costs, and/or Indirect Costs. Account Code Titles provide insights into the nature of the Costs within a respective Account Code. For example, an Account Code Title such as “Professional Services Cost” denotes that Costs within this Account Code are incurred for Contracts that the Provider has with vendors.
- 3) Subaccount Code
 - a. Subaccount codes are pooled into an Account Code and provide an additional level of detail into the Costs incurred within an individual Account Code.
- 4) Subaccount Code Title
 - a. Subaccount code titles provide additional details regarding the transactions that make up a single Account Code. For example, within the Account Code “Professional Services Cost,” the following subaccount code titles may exist:
 - i. Legal Services
 - ii. Accounting Services
 - iii. Program Consultant.
- 5) Fiscal Year Cost Amount
 - a. The Cost amount provides the dollar value of Costs for each respective Account Code and subaccount code. Cost amounts should align to a single fiscal year.

The subtotal of Costs in the generated Cost report should tie to the Provider’s corresponding fiscal year financial statements. A reconciliation should be performed before continuing the SAM ICR calculation.

C. Step #2 – Summarize and Classify Costs

After generating and reconciling the Cost report, summarize Costs by Account Code. Classify each Account Code as:

- 1) “Direct” if the Account Code only contains Direct Costs;
- 2) “Indirect” if the Account Code only contains Indirect Costs; or
- 3) “Mixed” if the Account Code contains both Direct Costs and Indirect Costs.

The below table illustrates this step as completed in the *Sample SAM ICR* (please reference the “Costs Summary” worksheet). The Provider in this example has 24 Account Codes totaling \$1,000,000 in Costs.

| Account Code | Account Code Title | Cost | Classification |
|--------------|---|-----------------|----------------|
| 100 | Advertising and Public Relations Costs | \$ 5,000.00 | Mixed |
| 200 | Audit Services | \$ 2,000.00 | Indirect |
| 300 | Bad Debts | \$ 5,000.00 | Indirect |
| 400 | Capital Expenditures and Equipment | \$ 31,000.00 | Direct |
| 500 | Compensation Costs—Personal Services | \$ 625,000.00 | Mixed |
| 600 | Compensation Costs—Fringe Benefits | \$ 100,000.00 | Mixed |
| 700 | Conference, Training, and Education Costs | \$ 12,000.00 | Mixed |
| 800 | Depreciation Costs | \$ 5,000.00 | Indirect |
| 900 | Entertainment Costs | \$ 30,000.00 | Mixed |
| 1000 | Fines, Penalties, Damages and Other Settlements | \$ 1,000.00 | Indirect |
| 1100 | Fundraising and Investment Management Costs | \$ 1,000.00 | Indirect |
| 1200 | Insurance Costs | \$ 10,000.00 | Direct |
| 1300 | Interest Costs | \$ 2,000.00 | Indirect |
| 1400 | Maintenance and Repair Costs | \$ 5,000.00 | Indirect |
| 1500 | Materials and Supplies Costs | \$ 2,000.00 | Indirect |
| 1600 | Memberships and Subscriptions Costs | \$ 1,000.00 | Direct |
| 1700 | Participant Support Costs | \$ 5,000.00 | Direct |
| 1800 | Professional Service Costs | \$ 70,000.00 | Mixed |
| 1900 | Publication and Printing Costs | \$ 2,000.00 | Indirect |
| 2000 | Recruiting Costs | \$ 2,000.00 | Indirect |
| 2100 | Rental Costs of Real Property and Equipment | \$ 70,000.00 | Mixed |
| 2200 | Taxes | \$ 3,000.00 | Indirect |
| 2300 | Transportation Costs | \$ 1,000.00 | Indirect |
| 2400 | Travel Costs | \$ 10,000.00 | Direct |
| | Total | \$ 1,000,000.00 | |

D. Step #3 – Split Mixed Account Codes

After classifying all Account Codes, identify the amount of Direct Costs and Indirect Costs within each Account Code classified as “Mixed.” The approach for splitting Direct Costs and Indirect Costs within “Mixed” Account Codes may vary by Account Code. Some Providers may be able to generate reports with subaccount detail to determine the splits, while others may need use an allocation methodology. However, regardless of the approach, there must be a sufficient basis for determining the splits. Adequate documentation must be included to support the splits.

In the *Sample SAM ICR* (please reference the “Mixed Costs Analysis” worksheet), the Provider identified seven Account Codes as “Mixed,” totaling \$900,000 in Costs, as illustrated in the table below.

| Account Code | Account Code Title | Costs | Classification | Direct Costs | Indirect Costs | Total Costs |
|--------------|---|--------------|----------------|--------------|----------------|--------------|
| 100 | Advertising and Public Relations Costs | \$ 5,000.00 | Mixed | \$ 3,000.00 | \$ 2,000.00 | \$ 5,000.00 |
| 500 | Compensation Costs—Personal Services | \$625,000.00 | Mixed | \$567,000.00 | \$ 58,000.00 | \$625,000.00 |
| 600 | Compensation Costs—Fringe Benefits | \$100,000.00 | Mixed | \$ 90,720.00 | \$ 9,280.00 | \$100,000.00 |
| 700 | Conference, Training, and Education Costs | \$ 12,000.00 | Mixed | \$ 10,000.00 | \$ 2,000.00 | \$ 12,000.00 |
| 900 | Entertainment Costs | \$ 30,000.00 | Mixed | \$ 5,000.00 | \$ 25,000.00 | \$ 30,000.00 |
| 1800 | Professional Service Costs | \$ 70,000.00 | Mixed | \$ 66,000.00 | \$ 4,000.00 | \$ 70,000.00 |
| 2100 | Rental Costs of Real Property and Equipment | \$ 70,000.00 | Mixed | \$ 65,000.00 | \$ 5,000.00 | \$ 70,000.00 |
| | Total | \$912,000.00 | | \$806,720.00 | \$105,280.00 | \$912,000.00 |

To arrive at the splits illustrated above, the example Provider analyzed each Account Code and documented the detailed Costs that comprise each Account Code and classified the Costs as Direct Costs or Indirect Costs. For purposes of illustration, the following section explains how the Provider split three of these Account Codes.

500 Compensation – Personal Services Split

Please reference the “500 Personal Services – Split” tab in the *Sample SAM ICR*.

The example Provider had \$625,000 in Costs for Account Code 500, *Compensation Costs – Personal Services*. To determine the splits, the Provider provided a list of all employees and their wages or salaries covered in the Provider *Compensation Costs – Personal Services* Account Code. Each employee was then classified as “direct,” “indirect,” or “mixed,” as illustrated in the following table.

| <i>Detailed Split Analysis</i> | | | | | | |
|--------------------------------|---|---------------|-----------------------|--------------------|----------------------|-------------------|
| Account Code 500 | Compensation Costs — Personal Services | Cost | Classification | Direct Cost | Indirect Cost | Total Cost |
| 501 | Administrative Assistant | \$ 28,000.00 | Indirect | \$ - | \$28,000.00 | \$ 28,000.00 |
| 502 | Case Worker I | \$ 35,000.00 | Direct | \$ 35,000.00 | \$ - | \$ 35,000.00 |
| 503 | Case Worker II | \$ 35,000.00 | Direct | \$ 35,000.00 | \$ - | \$ 35,000.00 |
| 504 | Case Worker III | \$ 35,000.00 | Direct | \$ 35,000.00 | \$ - | \$ 35,000.00 |
| 505 | Executive Director | \$ 45,000.00 | Mixed | \$ 15,000.00 | \$30,000.00 | \$ 45,000.00 |
| 506 | Program Education Specialist I | \$ 30,000.00 | Direct | \$ 30,000.00 | \$ - | \$ 30,000.00 |
| 507 | Program Education Specialist II | \$ 30,000.00 | Direct | \$ 30,000.00 | \$ - | \$ 30,000.00 |
| 508 | Program Education Specialist II | \$ 35,000.00 | Direct | \$ 35,000.00 | \$ - | \$ 35,000.00 |
| 509 | Program Manager I | \$ 55,000.00 | Direct | \$ 55,000.00 | \$ - | \$ 55,000.00 |
| 510 | Program Manager II | \$ 60,000.00 | Direct | \$ 60,000.00 | \$ - | \$ 60,000.00 |
| 511 | Program Manager III | \$ 75,000.00 | Direct | \$ 75,000.00 | \$ - | \$ 75,000.00 |
| 512 | Program Outreach Worker I | \$ 37,000.00 | Direct | \$ 37,000.00 | \$ - | \$ 37,000.00 |
| 513 | Program Outreach Worker II | \$ 40,000.00 | Direct | \$ 40,000.00 | \$ - | \$ 40,000.00 |
| 514 | Youth Counselor I | \$ 40,000.00 | Direct | \$ 40,000.00 | \$ - | \$ 40,000.00 |
| 515 | Youth Counselor II | \$ 45,000.00 | Direct | \$ 45,000.00 | \$ - | \$ 45,000.00 |
| | Total | \$ 625,000.00 | | \$ 567,000.00 | \$ 58,000.00 | \$ 625,000.00 |

Certain employees may engage in both indirect and direct services and are classified as “Mixed.” In this example, the Executive Director both leads and oversees the entire organization and provides counseling services for a specific City Program; \$15,000 of the Executive Director’s compensation has been allocated to Direct Costs and \$30,000 has been allocated to Indirect Costs. The split in compensation would indicate that the Executive Director spent one third (\$15,000/\$45,000) of their time on direct services and two thirds (\$30,000/\$45,000) of their time on indirect services. As part of its ICR submission, the Provider would have included documentation to substantiate this time and function split.

600 Compensation – Fringe Benefits Split

Providers may track fringe benefits differently. Some Providers may track fringe benefits per employee; other Providers may track fringe benefits as a single organization-wide Cost; and other Providers may calculate fringe benefits rates, which are then applied to their Compensation Costs – Personal Services. The *Sample SAM ICR* provides examples for splitting the example Provider’s \$100,000 in fringe benefits Costs under the first two scenarios.

Scenario 1

Please reference the “600 Fringe Benefits – Split (1)” tab in the *Sample SAM ICR*.

For Providers that track fringe benefits per employee, the steps to split Indirect Costs and Direct Costs are similar to the steps for Account Code 500, *Compensation Costs – Personal Services Split*.

| <i>Detailed Split Analysis</i> | | | | | | |
|--------------------------------|---|----------------------|-----------------------|---------------------|-----------------------|----------------------|
| Account Code 600 | Compensation Costs — Fringe Benefits | Cost | Classification | Direct Costs | Indirect Costs | Total Costs |
| 601 | Administrative Assistant | \$ 4,480.00 | Indirect | \$ - | \$ 4,480.00 | \$ 4,480.00 |
| 602 | Case Worker I | \$ 5,600.00 | Direct | \$ 5,600.00 | \$ - | \$ 5,600.00 |
| 603 | Case Worker II | \$ 5,600.00 | Direct | \$ 5,600.00 | \$ - | \$ 5,600.00 |
| 604 | Case Worker III | \$ 5,600.00 | Direct | \$ 5,600.00 | \$ - | \$ 5,600.00 |
| 605 | Executive Director | \$ 7,200.00 | Mixed | \$ 2,400.00 | \$ 4,800.00 | \$ 7,200.00 |
| 606 | Program Education Specialist I | \$ 4,800.00 | Direct | \$ 4,800.00 | \$ - | \$ 4,800.00 |
| 607 | Program Education Specialist II | \$ 4,800.00 | Direct | \$ 4,800.00 | \$ - | \$ 4,800.00 |
| 608 | Program Education Specialist II | \$ 5,600.00 | Direct | \$ 5,600.00 | \$ - | \$ 5,600.00 |
| 609 | Program Manager I | \$ 8,800.00 | Direct | \$ 8,800.00 | \$ - | \$ 8,800.00 |
| 610 | Program Manager II | \$ 9,600.00 | Direct | \$ 9,600.00 | \$ - | \$ 9,600.00 |
| 611 | Program Manager III | \$ 12,000.00 | Direct | \$ 12,000.00 | \$ - | \$ 12,000.00 |
| 612 | Program Outreach Worker I | \$ 5,920.00 | Direct | \$ 5,920.00 | \$ - | \$ 5,920.00 |
| 613 | Program Outreach Worker II | \$ 6,400.00 | Direct | \$ 6,400.00 | \$ - | \$ 6,400.00 |
| 614 | Youth Counselor I | \$ 6,400.00 | Direct | \$ 6,400.00 | \$ - | \$ 6,400.00 |
| 615 | Youth Counselor II | \$ 7,200.00 | Direct | \$ 7,200.00 | \$ - | \$ 7,200.00 |
| | Total | \$ 100,000.00 | | \$ 90,720.00 | \$ 9,280.00 | \$ 100,000.00 |

In the *Sample SAM ICR*, the example Provider classified each employee as “indirect,” “direct,” or “mixed.” Fringe Benefits Costs associated with employees classified as “Direct” were classified as Direct Costs; Fringe Benefits Costs associated with employees classified as “Indirect” were classified as Indirect Costs. Fringe Benefits Costs associated with “Mixed” employees were split based on those employee’s time spent on direct and indirect services. As with Compensation Costs – Personal Services, Personal Services Costs – Fringe Benefits for the Executive Director were split one third (\$2,400/\$7,200) to Direct Costs and two thirds to Indirect Costs (\$4,800/\$7,200).

Note that the Compensation Costs – Fringe Benefits in the above table are aggregated at the employee level. Providers should be able to substantiate the specific fringe benefits (e.g., health insurance and unemployment insurance) and their associated Costs for each employee under this scenario.

Scenario 2

Please reference the “600 Fringe Benefits – Split (2)” tab in the *Sample SAM ICR*.

For Providers that do not track Compensation Costs – Fringe Benefits per employee and instead track fringe benefits on an organization-wide basis, an appropriate allocation methodology should be used to split Direct Costs and Indirect Costs. One methodology to split Fringe Benefits is to allocate Fringe Benefits Costs by the ratio of total direct Personal Services Costs to total indirect Personal Services Costs. The example in the *Sample SAM ICR* uses this methodology, as illustrated in the table below.

| Account Code 600 | Compensation Costs — Personal Services | Cost | Percentage | Compensation Costs— Fringe Benefits |
|------------------|---|---------------|------------|-------------------------------------|
| Fringe Split | Indirect Compensation - Personal Services | \$ 58,000.00 | 9.28% | \$ 9,280.00 |
| | Direct Compensation - Personal Services | \$ 567,000.00 | 90.72% | \$ 90,720.00 |
| | Total | \$ 625,000.00 | 100% | \$ 100,000.00 |

The example Provider had \$625,000 in Personal Services Costs, of which \$58,000 were Indirect Costs and \$567,000 were Direct Costs, or 9.28% and 90.72% of total Personal Services Costs, respectively. These percentages are applied to the total Fringe Benefits Costs (\$100,000) to arrive at the Direct Costs and Indirect Costs splits.

Scenario 3

For Providers that calculate Fringe Benefits rates, the rates should be applied in accordance with those calculations. For example, if a Provider calculates a fringe benefits rate of 20% per dollar of Personal Services Cost, the Fringe Benefits rate should be applied only to Personal Services Costs.

Providers may also have varying levels of Fringe Benefits for different classes of employees, such as part-time and full-time employees. The appropriate Fringe Benefits rates should be applied to each class of employee.

1800 Professional Service Costs Split

Please reference the “1800 Professional Svcs – Split” tab in the *Sample SAM ICR*.

The example Provider had \$70,000 in Costs for Account Code 1900, Professional Services. To determine the splits, the Provider provided a subaccount breakdown showing the types of services provided and their respective Costs. Each subaccount was then classified as “direct,” “indirect,” or “mixed,” as illustrated in the following table.

| <i>Detailed Split Analysis</i> | | | |
|--------------------------------|-----------------------------------|--------------|-----------------------|
| Account Code 1800 | Professional Service Costs | Cost | Classification |
| 1801 | Legal Services | \$ 2,000.00 | Indirect |
| 1802 | Accounting Services | \$ 2,000.00 | Indirect |
| 1803 | Program Consultant | \$ 66,000.00 | Direct |
| | Total | \$ 70,000.00 | |

E. Step #4 – Identify Unallowable Indirect Costs

After splitting the “Mixed” Account Codes, every Cost should be classified as either a Direct Cost or Indirect Cost. The next step is to identify Unallowable Indirect Costs, as these Costs should not be included in the ICR. For Indirect Costs identified in each Account Code, determine the amounts that are Unallowable Costs and provide an explanation for the determination. For guidance and clarification on the allowability of Costs, refer to Section IV (Treatment of Commonly Incurred Costs) or consult with an Agency.

The following table illustrates this step as completed in the *Sample SAM ICR* (please reference the “Indirect Costs Analysis” worksheet). The Provider in this example determined that \$38,000 of the \$136,280 Indirect Costs were Unallowable Costs.

| Account Code | Account Code Title | Indirect Costs | Unallowable Indirect Costs | Allowable Costs | Unallowable Indirect Costs Notes |
|--------------|---|----------------|----------------------------|-----------------|---|
| 100 | Advertising and Public Relations | \$ 2,000.00 | \$ 2,000.00 | \$ - | \$2,000 of costs were incurred for organization-wide advertising and public relations. |
| 200 | Audit Services | \$ 2,000.00 | \$ - | \$ 2,000.00 | |
| 300 | Bad Debts | \$ 5,000.00 | \$ 5,000.00 | \$ - | All costs were incurred for debts which have been determined to be uncollectable. |
| 500 | Compensation Costs—Personal Services | \$ 58,000.00 | \$ - | \$ 58,000.00 | |
| 600 | Compensation Costs—Fringe Benefits | \$ 9,280.00 | \$ - | \$ 9,280.00 | |
| 700 | Conference, Training, and Education Costs | \$ 2,000.00 | \$ - | \$ 2,000.00 | |
| 800 | Depreciation | \$ 5,000.00 | \$ - | \$ 5,000.00 | |
| 900 | Entertainment Costs | \$ 25,000.00 | \$ 25,000.00 | \$ - | \$25,000 of costs were incurred for organization-wide entertainment, sporting events, and alcohol beverages not attributed to a program or award. |
| 1000 | Fines, Penalties, Damages and Other Settlements | \$ 1,000.00 | \$ 1,000.00 | \$ - | All costs were incurred for violations of, alleged violations of, or failure to comply with laws and regulations. |
| 1100 | Fundraising and Investment Management Costs | \$ 1,000.00 | \$ 1,000.00 | \$ - | All costs were incurred for organization-wide fundraising and endowment drives incurred to raise capital or obtain contributions. |
| 1300 | Interest | \$ 2,000.00 | \$ 2,000.00 | \$ - | All costs were incurred for interest on borrowed capital and temporary use of endowment funds. |
| 1400 | Maintenance and Repair Costs | \$ 5,000.00 | \$ - | \$ 5,000.00 | |
| 1500 | Materials and Supplies Costs | \$ 2,000.00 | \$ - | \$ 2,000.00 | |
| 1800 | Professional Service Costs | \$ 4,000.00 | \$ - | \$ 4,000.00 | |
| 1900 | Publication and Printing Costs | \$ 2,000.00 | \$ - | \$ 2,000.00 | |
| 2000 | Recruiting Costs | \$ 2,000.00 | \$ - | \$ 2,000.00 | |
| 2100 | Rental Costs of Real Property and Equipment | \$ 5,000.00 | \$ - | \$ 5,000.00 | |
| 2200 | Taxes (including Value Added Tax) | \$ 3,000.00 | \$ 2,000.00 | \$ 1,000.00 | \$2,000 of costs were incurred for federal income taxes. |
| 2300 | Transportation Costs | \$ 1,000.00 | \$ - | \$ 1,000.00 | |
| | Total | \$ 136,280.00 | \$ 38,000.00 | \$ 98,280.00 | |

F. Step #5 – Calculate the Indirect Cost Rate

At this point, all Costs should be classified as Direct Costs, Allowable Indirect Costs, or Unallowable Indirect Costs. The next step is to calculate the ICR. The formula used to calculate a SAM ICR is as follows:

$$\frac{\text{Allowable Indirect Costs}}{\text{Direct Cost Base}}$$

The Direct Cost base for calculating the ICR should be total Direct Costs less the Direct Costs for the following items:

- 1) Capital Expenditures and Equipment
- 2) Participant Support Costs
- 3) Subcontracts amounts above \$25,000
- 4) Distorting Items.

It is important to note that these excluded items may be Allowable Costs chargeable to the Contract. However, for purposes of calculating the ICR (and for subsequent application of the ICR), they should be excluded.

In addition, any Direct Costs other than those identified above as excluded from the base, should be included in the base regardless of whether they are Allowable Costs chargeable to a Contract, as long as those Direct Costs benefit from the Allowable Indirect Costs. This will ensure that those Direct Costs are allocated their equitable share of Allowable Indirect Costs, so as to not overstate the ICR.

The following tables illustrate this step as completed in the *Sample SAM ICR* (please reference the “Rate Summary” worksheet). The Provider in this example summarized its Indirect Costs (including what Costs were Allowable) and Direct Costs, then determined the Direct Cost Base. The Provider then calculated a SAM ICR of 11.87%.

| | | |
|---|------------------------|--|
| Provider Name | Sample Provider | |
| Fiscal Year | 20XX | |
| Indirect Cost Rate | 11.87% | |
| Total Costs | | |
| Total Costs | \$ 1,000,000.00 | <i>Source: Costs Summary</i> |
| Indirect Costs | | |
| Total Indirect Costs | \$ 136,280.00 | <i>Source: Indirect Costs Analysis</i> |
| Unallowable Indirect Costs | \$ 38,000.00 | <i>Source: Indirect Costs Analysis</i> |
| Total Allowable Indirect Costs | \$ 98,280.00 | |
| Direct Costs | | |
| Total Direct Costs | \$ 863,720.00 | <i>Source: Rate Summary</i> |
| Capital Expenditures and Equipment | \$ 31,000.00 | <i>Source: Costs Summary</i> |
| Distorting Items, such as Subcontracts | \$ - | <i>Source: Costs Summary</i> |
| Participant Support Costs | \$ 5,000.00 | <i>Source: Costs Summary</i> |
| Direct Cost Base | \$ 827,720.00 | |
| Simplified Allocation Method (SAM) | | |
| Total Allowable Indirect Costs | \$ 98,280.00 | <i>Source: Rate Summary</i> |
| Direct Cost Base | \$ 827,720.00 | <i>Source: Rate Summary</i> |
| SAM Indirect Cost Rate | 11.87% | |

VI. Appendix

A. *Indirect Cost Rate Methodologies*

The following section outlines limited guidance for three additional ICR methodologies. These three additional methodologies are the multiple allocation base method, the direct allocation method, and the special indirect Cost rates.

Multiple Allocation Base Method

- 1) When a Provider's Indirect Costs benefit its major Cost Objectives in varying degrees, Indirect Costs must be separated into Cost groupings. Each grouping must then be allocated individually to benefitting functions by allocation methodologies which result in equitable allocations of Indirect Costs. Under this methodology, Indirect Cost pools may be allocated to other Indirect Cost pools (i.e., an Intermediary Cost Objectives) before being allocated to the final benefitting function (i.e., the Final Cost Objective).
- 2) Cost groupings must be established to allocate Costs on the basis of benefits provided to each major function. Each grouping must constitute a pool of Costs that are similar in terms of functions they benefit and in terms of the allocation methodology that best measures the benefits provided to each function. The groupings are classified within two broad categories: "Facilities" and "Administration." If the rate is to be used to claim off any Contracts with federal funds, where the provider is a subrecipient, the Provider should refer to relevant federal guidance.
- 3) Allocation methodologies should be selected to best reflect the benefits received by each benefitting Cost Objective. When a Cost pool can be allocated directly to the benefitting function, the allocation must be made directly. When the Costs are more general in nature, the allocation must be made using a methodology equitable to the Contracts and the Provider. If the rate is to be used to claim off any Contracts with federal funds, where the provider is a subrecipient, the Provider should refer to relevant federal guidance.
- 4) Indirect Cost categories consisting of depreciation, interest, operation and maintenance, and general administration and general expenses must be allocated in that order to the remaining Indirect Cost categories as well as to the major functions of the organization. Other Cost categories should be allocated in the order determined to be most appropriate by the organization.
- 5) Once Cost groupings and allocation methodologies are established, Indirect Costs should be allocated in the following order:
 - a. Indirect Cost pools should first be allocated to benefitting functions, inclusive of Direct Costs and *all* other functions considered to be Indirect Costs pools.

- b. Any Indirect Cost pools with remaining Costs (ones that have received Indirect Costs from other pools) should be allocated to benefitting functions, but *only* to Direct Costs and those functions considered to be Indirect Cost pools that have *not* been allocated as part of this step (step 2). For example, if the general counsel pool was first allocated to Program A, Program B, and human resources, then human resources would not be allocated back to general counsel.
- 6) The Direct Cost base used to calculate the ICR for this multiple allocation methodology is the modified total direct Cost.
- 7) Except where a special ICR is required, ICRs should be calculated for each major function identified and each ICR should consist of a rate for “Facilities” and a rate for “Administration.” Applicable rates should be applied to individual Contracts based on which major function each Contract resides.

Direct Allocation Method

- 1) Some Providers treat all Costs as Direct Costs except general administration and general expenses. Joint Costs, such as depreciation, rental Costs, operation and maintenance of facilities, and telephone expenses, are prorated individually as Direct Costs to each to each Contract or other Activity using an allocation methodology appropriate to the particular Cost being allocated.
- 2) This method is acceptable, provided each joint Cost is allocated using an allocation methodology that accurately reflects the benefits provided to each Contract or other Activity. The allocation methodology must be established in accordance with reasonable criteria and be supported by sufficient documentation.
- 3) Under this method, Indirect Costs will consist exclusively of general administration and general expenses. The Provider’s ICR consisting of these remaining Costs must be computed in accordance with Section V (Developing a Simplified Allocation Method Rate) of this Cost Manual.

Special Indirect Cost Rates

- 1) In some instances, a single Indirect Cost Rate for all activities of a Provider may not be appropriate, since it may not take into account factors that may substantially affect the Indirect Costs applicable to a particular Activity. These factors may include the physical location of the work, the level of administrative support required, the nature of the facilities or other resources employed, the scientific disciplines or technical skills involved, the organizational arrangements used, or any combination thereof.
- 2) When a particular activity is performed in an environment that appears to generate a significantly different level of Indirect Costs, a separate Indirect Cost pool should be developed for this Activity. The separate Indirect Cost pool should be developed during the course of the regular rate calculation process, and the resulting separate ICR should be used if (i) the ICR differs significantly from what would have been calculated had a special rate not been calculated, and (ii) the volume of work to which the ICR would apply is significant.

B. Frequently Asked Questions

The following section presents frequently asked questions (FAQs) related to the Cost Manual. These FAQs were developed in response to provider questions asked during development sessions with Nonprofit Resiliency Committee members. Please note that in the event of any discrepancy between the guidance in the Cost Manual and the answers in the FAQs, the actual guidance in the Cost Manual governs. If there is a question pertaining to the application of the Cost Manual guidance to a particular Contract, the question should be addressed to the awarding Agency. We anticipate that this section of the Cost Manual will be updated regularly to reflect feedback and questions from Providers and agencies.

1) Is the Cost Manual applicable to all City Contracts?

Yes. The Cost Manual is applicable to all Contracts across all City agencies.

2) If a Cost is allowable based on guidance in the Cost Manual, but is not allowable in the Contract, can the Cost be charged to the respective Contract?

No. The Cost Manual outlines which Costs are allowable and unallowable per Cost principles. The budget of a Contract outlines which Costs can be charged to the Contract.

3) Can administrative, overhead, and indirect be used interchangeably to describe Indirect Costs?

No. Administrative or overhead Costs may be Direct Costs. For example, a Contract may fund a full-time equivalent to function as a bookkeeper solely for the Contract. This individual would be considered administrative direct as their Costs are attributed to a single Cost Objective.

4) Can a Cost that benefits multiple Cost Objectives, such as the Cost for a financial statement audit, be proportionally allocated to Contracts and charged as Direct Costs to the respective Contracts?

No. If a Cost benefits multiple Cost Objectives and a Provider's methods of allocating the Cost is not done with a high degree of accuracy, the Cost cannot be classified as a Direct Cost.

5) Can the same type of Cost, such as Compensation – Personal Services or Rental Costs of Real Property and Equipment, be direct in certain scenarios and indirect in other scenarios?

Yes. A type of Cost may be a direct in one service or function, but indirect in another service or function (e.g., an individual that functions in multiple capacities). The Executive Director may oversee the entire organization (Indirect) and provide counseling services for a specific City Program (Direct). As part of its ICR submission, the Provider would be required to include documentation to substantiate this time and function split.

The same is true of Rental Cost of Real Property and Equipment.

For example, the Rental Cost of a Program facility would be considered a Direct Cost; however, the Rental Cost of a Provider's headquarters, where Program services are not delivered, would be considered an Indirect Cost.

The previously discussed examples can be direct in certain scenarios and indirect in other scenarios, because the Costs are different in service and function. If a type of Cost is similar in service and function, the Cost type must be consistently classified as direct or indirect. For example, the Compensation – Personal Services Cost of an individual who dedicates all their time to Program delivery must be classified as a Direct Cost. Their Costs cannot be split between Indirect Costs and Direct Costs.

6) Who is the City point-of-contact for questions or concerns related to the Cost Manual or interpretation of the Cost Manual?

Your contracting Agency contract manager is the initial point of contact for questions or concerns related to the Cost Manual. Unresolved questions or concerns may be directed to help@mocs.nyc.gov. MOCS will coordinate resolution with the Agency and OMB.

7) What is the effective date of the Cost Manual and can I apply the Cost Manual to Contracts with start dates before July 1, 2019?

The Cost Manual is applicable to all contracts beginning July 1, 2019. If Providers wish to apply the Cost Manual for a Contract with a start date before July 1, 2019, Providers will need to execute an amendment to their Contract. The standard Contract will include a rider to amend active contracts. Please see Section II.C (City Policies) for more information.

8) Will Providers be required to substantiate Indirect Costs if they claim the de minimis 10% rate?

Yes. Providers who claim the de minimis 10% rate may still be subject to audit as outlined in Section II.C (City Policies).

9) If a provider claims an ICR on a Contract budget that is higher than what was claimed in prior fiscal years, will the City increase my Contract award amount?

The Cost Manual provides flexibility, standardization, and consistency for Providers. The Cost Manual is not intended to increase funding or decrease service levels for Contracts.

10) If a provider claims an ICR on a Contract budget that is higher than what was claimed in prior fiscal years, will the Agency return the budget?

The City understands and expects that there will be modifications to Contract budgets based on the Cost Manual. The City has conducted information sessions and workshops with Agencies to educate the Agencies on the Cost Manual and the impact on Contract budgets. The City expects ongoing communication and discussion between Providers and Agencies during the budgeting process.

11) If a Provider has an ICR developed by a CPA, can the Provider use the ICR?

The CPA must verify that the ICR is calculated according to the Cost Manual and based on the most recent available schedule of functional expenses. The CPA Verification Letter template is provided in Section II.D (Certified Public

Accountant Verification Letter Template). The CPA Verification Letter is valid for three years. Please see Section II.C (City Policies) for more information.

12) Are Rental Costs of Real Property and Equipment always Indirect Costs unless the entire building is dedicated to a single Contract?

Rental Costs of Real Property and Equipment can be direct in certain circumstances. A single building can be used to serve customers from multiple Contracts and the Rental Costs of Real Property and Equipment would be Direct Costs. If a Provider has a single building that is being used for three Contracts, the Provider would allocate the Costs proportionally to all three Contracts based on a statistic that will produce an equitable result in consideration of relative benefits derived, such as square footage occupied. When the Provider allocates the Costs to the three Contracts, the Costs would be considered Direct Costs. This is based on the Direct Allocation Method, as outlined in Section VI.A (Indirect Cost Rate Methodologies).

13) Could a Provider allocate Rental Costs of Real Property and Equipment as a Direct Cost into Contracts as a “Scenario 2” type Cost as outlined in Section III.F (Defining Cost Process)? Would a square footage or head count-based allocation be considered an assignment “with a high degree of accuracy” as with timesheets?

Yes. A single building can be used to serve customers from multiple Contracts and the Rental Costs of Real Property and Equipment would be Direct Costs. If a Provider has a single building that is being used for three Contracts, the Provider would allocate the Costs proportionally to all three Contracts based on a statistic that will produce an equitable result in consideration of relative benefits derived such as square footage occupied. When the Provider allocates the Costs to the three Contracts, the Costs would be considered Direct Costs. This is based on the Direct Allocation Method, as outlined in Section VI.A (Indirect Cost Rate Methodologies).

14) If an executive staff member of my organization is a Certified Public Accountant, can they sign the Certified Public Accountant verification letter?

No. The Certified Public Accountant verification letter must be signed by an independent and external Certified Public Accountant firm.

C. Contact Information

Providers should contact their agency Contract manager for initial questions or concerns related to the Cost Manual. Unresolved questions or concerns may be directed to help@mocs.nyc.gov. MOCS will coordinate resolution with OMB.

Currently Under Revision